

### III. BASELINE FORECAST RESULTS

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#### PURPOSE OF THE BASELINE FORECAST

The Baseline Forecast is being prepared to address questions regarding the cost of growth in Redmond during the next 20 years, roughly the time-span of the PSRC regional projections (i.e., 1997 through 2016) and the horizon year of the *Redmond Comprehensive Plan*. As such, the Baseline Forecast will provide a benchmark for project-specific applications of the Cost of Growth Model.

It should be noted that the Baseline Forecast is based on extensive interviews with City Department Heads regarding the base year 1996 budget. The CGM has since been updated to reflect the preliminary 1997-98 City budget. Therefore the unit cost measures in the CGM may not reflect changes in service delivery that have been adopted as part of the final budget. While such changes are unlikely to be substantial, subsequent updates to the CGM should be accompanied by further interviews with Department Heads to assess how unit cost measures may have changed due to differences in the method of service delivery.

#### PROJECT DESCRIPTION

The growth projections described in the previous chapter set forth the project description for the Baseline Forecast. Under the Baseline Forecast it is assumed that there will be no additional major annexations to the City of Redmond except for the portion of North Redmond which corresponds to the 10-year service area as defined in the *Redmond Comprehensive Plan* (May 1995). Areas such as the Plateau are assumed to remain unincorporated from the City of Redmond in the Baseline Forecast. It should be noted that there are currently plans to create a separate City of Sammamish which will be voted on in February 1998.

The City of Redmond Fire Department provides fire services to the City of Redmond and to a substantial portion of unincorporated East Redmond. The three fire stations in the City and the three fire stations outside City limits together serve Fire District 34. In order to model the costs and revenues associated with growth within Fire District 34, the development forecast assumes that there will be additional urban development in the Blakely Ridge and Northridge areas of East Redmond starting in the year 2000.

#### CONCLUSIONS

The Baseline Forecast is designed to inform policy makers whether new development (or total City development) is generating sufficient municipal revenue to cover costs associated with providing desired levels of public services. The *Forecast* results are not intended to precisely predict departmental costs or the Budget that will ultimately be approved in any given year.

The Baseline Forecast focuses upon the annual revenues that are expected to be available to the City and the annual costs of providing City services presuming that existing City fiscal policies expressed in the Budget are maintained. Key fiscal policies include:

- ❑ Five percent of specific General Fund revenues are transferred to the CIP Fund;
- ❑ All sales tax revenue from construction is also transferred to the CIP Fund; and
- ❑ The prior year property tax levy increases at the rate of inflation.

The following conclusions summarize the results of the Baseline Forecast. These results do not reflect management efforts to resolve the fiscal problems identified by the Forecast. The model provides the capability to test a range of management options and develop a sustainable fiscal regime.

1. *Recurring operating costs are shown to exceed annual municipal revenues. The annual operating deficits are projected to increase from \$375,000 in 2000, as development slows, to over \$4 million by 2015.*

The Baseline Forecast indicates that if revenue policies remain constant and current levels of service and service delivery methods in the City of Redmond, are maintained, annual municipal service costs will exceed the annual municipal revenues during the next 20 years. Table 3 provides an annual summary of costs and revenues projected for this period and the amount of net revenue that will accrue during this period.

The underlying cause of the fiscal deficit indicated in the forecast appears to be related to growth and its on-going effects. In particular, the increase in the fiscal deficit is caused by the reduction of development related revenue, associated with the projected slowdown of development in the City and the on-going cost of maintaining service levels.

2. *Reductions in recurring public service costs, or increases in municipal revenues, may be required to maintain historical budget commitments and future capital investments.*

Presuming no significant deviation in the development forecast, no changes to State and local government revenue statutes, and no changes to existing service levels and capabilities, the *Baseline Forecast* reveals that the City will need to make significant changes in order to maintain a positive fiscal balance. The City will need to make changes to land use policies, service delivery, and/or revenue policies during the next 20 years if it wishes to maintain historical budget commitments and achieve other budget and investment priorities.

**Table 3**  
**Baseline Forecast: General Fund**  
**City of Redmond Cost of Growth Model**

	1997	2000	2005	2010	2015
<b>Projected Revenue by Type</b>					
Beginning Cash	\$3,786,300	\$0	\$0	\$0	\$0
Property Taxes	\$7,176,400	\$9,125,200	\$9,817,700	\$10,259,900	\$10,452,300
Sales Taxes	\$12,707,000	\$15,515,100	\$16,317,000	\$17,014,200	\$17,126,200
Electric	\$2,023,800	\$2,466,400	\$2,738,800	\$2,823,200	\$2,848,100
Telephone	\$1,947,500	\$2,392,700	\$2,527,200	\$2,615,800	\$2,637,300
Gas, Garbage, Cable	\$1,168,900	\$1,359,200	\$1,436,300	\$1,477,100	\$1,490,800
Criminal Justice	\$598,400	\$640,500	\$644,700	\$627,900	\$606,700
Other Taxes	\$293,500	\$332,200	\$351,100	\$360,100	\$363,600
Business Licenses	\$462,900	\$628,300	\$663,100	\$693,200	\$697,800
State Shared Revenue	\$1,266,500	\$1,398,800	\$1,456,300	\$1,469,600	\$1,465,200
Fire District 34	\$2,926,400	\$2,950,700	\$4,092,200	\$4,688,900	\$5,336,400
Emergency Medical Service	\$419,600	\$449,100	\$452,000	\$440,300	\$425,400
Overhead Fees	\$1,508,900	\$1,656,000	\$1,816,600	\$1,921,100	\$2,002,000
Fines & Forfeitures	\$323,400	\$351,400	\$371,500	\$379,200	\$383,200
Investment Interest	\$967,700	\$1,145,500	\$1,239,300	\$1,297,300	\$1,325,200
Other	\$1,903,000	\$2,103,500	\$2,223,600	\$2,274,400	\$2,297,300
Development Revenues	\$3,206,500	\$3,534,700	\$3,673,900	\$3,811,500	\$3,817,100
<b>Total</b>	<b>\$42,686,700</b>	<b>\$46,049,300</b>	<b>\$49,821,300</b>	<b>\$52,153,700</b>	<b>\$53,274,600</b>
<b>Projected Costs by Dept.</b>					
Non-Departmental	\$5,640,000	\$5,350,000	\$5,581,000	\$5,823,900	\$5,950,800
Executive	\$384,700	\$429,200	\$478,700	\$508,100	\$531,200
Legislative	\$135,300	\$151,000	\$168,400	\$178,700	\$186,800
Human Resources	\$576,300	\$618,200	\$660,400	\$690,700	\$718,300
Legal	\$467,800	\$546,000	\$600,800	\$638,600	\$666,300
Finance	\$3,934,200	\$4,405,800	\$4,866,200	\$5,140,700	\$5,349,000
Public Works	\$6,347,500	\$6,592,000	\$6,907,100	\$7,213,900	\$7,403,700
Parks	\$4,286,800	\$5,010,100	\$5,243,500	\$5,425,500	\$5,567,800
Fire	\$8,417,700	\$9,644,200	\$12,478,800	\$13,241,500	\$13,988,100
Police	\$8,488,700	\$10,109,700	\$11,091,100	\$12,109,700	\$12,995,100
Planning	\$3,239,800	\$3,567,700	\$3,831,800	\$4,081,000	\$4,217,900
<b>Total</b>	<b>\$41,918,800</b>	<b>\$46,423,900</b>	<b>\$51,907,800</b>	<b>\$55,052,300</b>	<b>\$57,575,000</b>
<b>Ending Balance</b>	<b>\$767,900</b>	<b>(\$374,600)</b>	<b>(\$2,086,500)</b>	<b>(\$2,898,600)</b>	<b>(\$4,300,400)</b>

Note: Totals may not add due to rounding

Source: Economic & Planning Systems and the City of Redmond

3. *Contributions of net General Fund revenues to capital programs and replacement reserves are not likely to be sustainable at current levels.*

During recent years operating surpluses from the General Fund have allowed the Administration and the City Council to transfer net revenues into special funds and programs including the Capital Improvement Program (CIP) and replacement reserve accounts. The 1997/1998 Budget includes over \$4.0 million in transfers to the CIP and replacement reserve accounts. While contributions to the CIP Fund are important, the transfers from the General Fund contribute to the projected deficit. The City has initiated new sources of CIP funding, including impact fees, and the recently adopted business and operations tax which may reduce the reliance on contributions from the General Fund.

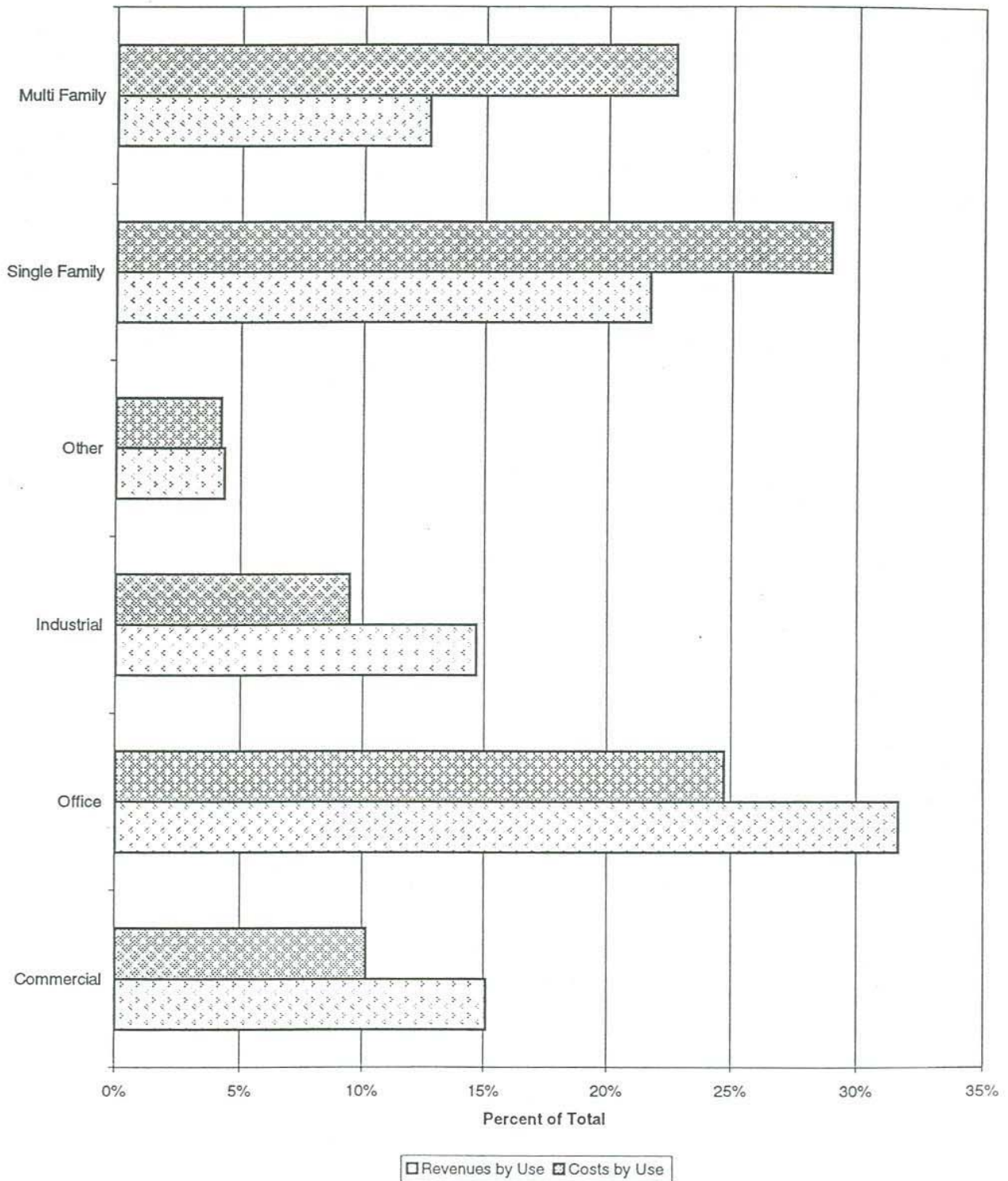
## RESULTS BY LAND USE

The results for the Baseline forecast for the City were also generated for the following general land use categories: commercial, office, industrial, other non-residential, single-family, and multi-family. The estimate of costs and revenues by land use is a combination of the cost or revenue generating characteristics of the use, as well as an allocation of citywide costs and revenues. For example, revenues such as sales tax, property tax, and business license revenue can be assigned directly to each land use based on the revenue generating characteristics of the use. However, citywide costs such as human resources, finance, and other general government services must be allocated to the different land uses.

Wherever possible, costs and revenues are allocated based on the demand for service or revenue characteristics of the use. In those cases where an allocation procedure is necessary, costs and revenues have been allocated based on each use's share of daytime population. Daytime population was measured as total population plus 50 percent of employment. Figure 2 shows the cost and revenue relationship for the six general land use categories.

The chart shows that the residential uses generate higher service costs than revenues and non-residential uses generate higher revenues than service costs. While this condition is true for the majority of municipalities in the United States, it does not imply that future development should only focus on commercial uses. It must be recognized that a community is composed of a mix of land uses that are vital for the sustainability of the community. For example, without sufficient housing, traffic congestion would increase as workers would be forced to commute from other communities.

**Figure 2**  
**Distribution of Fiscal Results by Land Use**  
**Redmond Cost of Growth Model**



## REVENUE AND COST SUMMARY

### FORECAST OF MUNICIPAL REVENUE

The following summarizes the key trends reflected in the forecast of Redmond's municipal revenue expected during the next 20 years. Features of the key revenue sources include:

- Property tax is expected to show growth related to substantial new development coming on-line in the next several years. Assuming the effective regular levy is held constant in current dollars (the levy increase is equal to the rate of inflation), revenues are expected to grow by over \$3.3 million through the year 2015. In fact, a portion of the levy required for debt service will decline over time as the debt is amortized. For the purposes of the Baseline analysis, it is assumed that the prior years levy will be increased by three percent per year (the same rate as the assumed rate of inflation) and the additional property tax revenues made available by the real decline in debt payments will be absorbed into the General Fund. Property tax revenues increase from the unincorporated parts of Fire District 34 as anticipated urban development in East Redmond proceeds starting in the year 2000.
- Sales tax is expected to increase by about \$2.0 million in the short term as a result of the Town Center project opening and significant development activity in the City. While there remains some uncertainty regarding the total amount of retail that will be constructed and leased, as well as the tenancy, a significant new revenue source will be created for the City. These sales tax revenues are net of the sales tax on construction. This analysis assumes that the current City policy of diverting sales tax revenues from construction directly into the CIP remains constant throughout the study period.
- Utility and other taxes are projected to increase proportionately as the user base grows in Redmond.
- Licenses and permits will continue to generate substantial funding for the City as the result of the amount of development expected during the next 20 years.
- Intergovernmental Revenues are expected to continue to grow at historical levels, as a function of statutory allocation formulas and growth in population.

### FORECAST OF MUNICIPAL EXPENDITURES

All expenditures are based on the 1997 budget. All departmental expenditures include a factor for cost of living adjustments and for merit increases. The percentage of total costs represented by salaries and benefits are estimated for each cost activity. The cost of living and merit increase factor (which ranges from 1.00 to 1.50 percent) is then applied to the portion of activity costs that are comprised of salaries and benefits. The major factors influencing projected cost increases within the operating departments include the following:

- Non-Departmental activities are generally assumed to grow proportionately as total City operations grow. Therefore, contingencies, special programs and administration are assumed to grow in proportion to total General Fund expenditures while other cost activities are forecast based on a per City employee factor. Certain non-departmental expenditures such as General Fund transfers to the Arts Activity Fund and to the Housing Fund, transfers to the City's operating reserve, General Fund transfers to the CIP budget and transfers to the capital equipment replacement reserve are forecast based on existing City policies.
- General Government activities, including the Executive, Human Resources, Legal, and Finance Departments will grow approximately in proportion to the entire City budget, as demand on these support services grows with City size. Where possible, cost activities are forecast based on demographic projections such as prosecution services and traffic violations (forecast based on population and a portion of total employment); election services (forecast based on the number of voters); and business licenses (forecast based on total employment in the City).
- Public Works expenditures in the engineering construction inspection, and engineering design and plan review activities will increase in relation to annual development in the City. Ongoing road and street maintenance costs will also increase due to the addition of new road miles related to increased development and transportation capacity improvements. Public facility (e.g.; fire stations and city office buildings) maintenance costs are projected based on the total inventory of City facilities and a maintenance cost per square foot factor. A projection of additional City office space and facilities are incorporated into the model. CGM adds 250 square feet of building space for the portion of new employees presumed to require new office space.
- Park and Recreation maintenance activities will increase due to the Phase 1 addition of the 35-acre Avondale Community Park in 1999, and basic maintenance costs associated with the transfer of the Redmond Elementary School to the City in 1997 for use as a Community Recreation Facility. Park operations costs are forecast based on an average cost per developed park acre factor. As the City grows it is assumed that new parks will need to be added in order to maintain the current park LOS. After the year 2000, the model adds park acres if it is necessary to maintain the City's LOS standard. Other increases in recreation costs are due to increased demand for recreation services and programs from new residents and employees in the City.
- Fire protection expenditures will hold relatively constant for several years but are projected to increase significantly in 2001 due to the opening of a new fire station on Education Hill and the staffing of this station with an engine company (12 firefighters).

Additionally, it is projected that the Fire Department will need to add four firefighters at Station 14 in the year 2000 to allow for double coverage to meet increased calls for service, plus an additional ambulance company (six firefighters) at Station 12 to cover increased growth in the Overlake neighborhood. Starting in the year 2000, growth in East Redmond in the Blakely Ridge and Northridge areas will result in additional calls for service in the unincorporated parts of Fire District 34. Therefore, it is assumed that a new fire station, with 12 firefighters, will be required in the year 2004 to serve this projected increased development within Fire District 34.

Fire prevention and inspection costs are expected to increase in relation to the cumulative commercial development in the City as more inspections are required annually to cover all new and existing commercial development in the City. Fire facility's maintenance costs are projected based on a cost per square foot factor. Total fire facility costs will increase as the Department takes on the responsibility for maintaining and operating new fire stations. Total fire expenditures are expected to increase by about \$5.6 million by the year 2015.

- Police protection expenditures will grow as the City grows in size and additional demands are made on all police operations. Police operations costs are estimate based on calls for service data provided by the Police Department. Projections in future calls for service are based on the current relationship between calls for service generated by different land use types such as single-family and multi-family residential uses, and retail, office, industrial, and other commercial uses.

As the City grows and new development is added police operation costs increase based on the calls for service factor. Detention and correction costs are expected to increase in relationship to the number of detention days which are forecast to grow at a rate of about four percent annually. Total police expenditures are expected to increase by about \$4.5 million by the year 2015.

- Planning expenditures associated with building permits, inspections, and land use management will fluctuate with annual development patterns. Code enforcement activities will increase as the amount of cumulative development in the City grows. Other planning activities are expected to increase approximately in proportion to population and employment growth.